

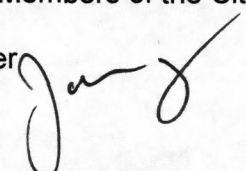


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LETTER TO COMMISSION

TO: Mayor Matti Herrera Bower and Members of the City Commission

FROM: Jorge M. Gonzalez, City Manager 

DATE: June 3, 2011

SUBJECT: **Moody's and Standard & Poor's Affirmation and Upgrade of City's and RDA's Bond Ratings**

The purpose of this Letter To Commission is to advise you of the results of positive annual reviews by the two rating agencies for different components of the City's debt, which even includes an upgrade of two levels on its Redevelopment Agency debt. ***These results reflect a strong financial position for the City at a time when other local governments have seen their ratings affected by the ongoing slow economy and the condition of state and federal government finances.*** Please see the attached online news report on Moody's activities the first three months of the year. As reported by Moody's, downgrades outpaced upgrades by almost 4 to 1. This was the second highest period of downgrades since the first quarter of 2002, and higher than the full year 2010 (downgrade) rate of 2.2 to 1. S & P's reported similar actions last year, making the positive reviews all the more significant.

The City's reviews included confirmation of our existing excellent ratings, upgrades, and the assignment of good ratings for two bond issues, as follows:

- Moody's Investor Service ("Moody's") confirmed the City's Aa2 General Obligation Bond Rating. Moody's stated that the Aa2 rating was confirmed based on the City's established national and international tourism and entertainment-based economy, a substantial tax base along with well-managed financial operations characterized by consistent operating surpluses, healthy reserves and an average debt burden. This rating is an above average rating which is just two levels below the top notch rating of Aaa.
- Moody's assigned an Aa3 rating to the City's Special Obligation Bonds (Pension Fund Project). The Aa3 rating for the Special Obligation Bonds is based on the City's significant non-ad valorem revenue which afford satisfactory protection for debt service given solid financial management, and historically strong financial policies resulting in healthy reserves.
- Moody's upgraded the rating of the Miami Beach Redevelopment Agency ("RDA") Tax Increment Revenue Refunding Bonds Series 1998A to A1 from A3, an increase of **two rating** levels. The RDA's bond rating is based on the mature, strong tax increment City Center district which has tripled in value over the past 10 years while declining only modestly in the recent economic downturn. The City Center's pledged increment revenues alone provide strong debt service coverage prior to the additional pledge of a subordinate lien on resort tax revenues. The RDA's bond rating of A1 is one of the highest in the State for a Community Redevelopment Agency.
- Moody's also assigned an A1 rating to the RDA's Tax Increment Bonds Series 2005A. The RDA's bond rating of A1 is one of the highest in the State for a Community Redevelopment Agency. Moody's expects the city's financial operations to remain healthy given solid

financial management and historically stable reserve levels.

- Standard & Poor's ("S&P") confirmed the City's AA- with a stable outlook rating on the General Obligation Bonds. S&P's stated that the AA- rating with a stable outlook is based on their opinion that the City's tax base will remain stable and that the financial operations will remain strong. S&P's rating reflect the City's location and participation in the deep and diverse Miami metropolitan area; an economic base that continues to diversify but remains highly dependent on the tourism industry; strong financial performance and reserves.
- Standard & Poor's ("S&P") upgraded the rating of the Miami Beach Redevelopment Agency ("RDA") Tax Increment Revenue Refunding Bonds Series 1998A to A+ from A. The RDA's upgraded rating is based on the agency's strong historical revenues and debt service coverage which is not expected to deteriorate despite a weakened economic climate and declines in assessed values. The City Center's pledged increment revenues alone provide strong debt service coverage prior to the additional pledge of a subordinate lien on resort tax revenues. The RDA's bond rating is one of the highest in the State for a Community Redevelopment Agency.

In all of 2008, S&P downgraded the ratings of just 37 bonds issued by state and local governments. However, during the first three quarters of 2010, S&P cut the ratings on 343 state and local government-issued bonds; that is 26% higher than all of 2009. In January 2011, Standard & Poor's issued a warning that this year could bring a potential surge in the number of downgrades of bonds issued by state and local governments.

If you have any questions or need additional information, please feel free to contact me.

JMG:PDW

Tough year ahead for U.S. states, local governments: Moody's

By Karen Pierog Posted 2011/04/26 at 3:36 pm EDT

CHICAGO, Apr. 26, 2011 (Reuters) — States and local governments are facing their toughest year so far, as rating downgrades continue to outpace upgrades, Moody's Investors Service said on Tuesday.

The first quarter of 2011 marked the ninth consecutive quarter in which downgrades dominated, according to the rating agency.

"With negative outlooks assigned to all major municipal sectors, the trend is likely to prevail for all of 2011," said Conor McEachern, a Moody's assistant vice president, in a statement.

There were 66 downgrades and 17 upgrades in the first three months of 2011 for a ratio of 3.9 to 1 -- the second highest since the first quarter of 2002 and higher than the full-year 2010 ratio of 2.2 to 1, Moody's reported.

Most notably, the ratings for Nevada and Kentucky fell to Aa2 from Aa1, while Providence, Rhode Island, was downgraded to A3 from A1.

McEachern said states and school districts this year will be facing "weak revenue growth, significant spending obligations and the loss of federal stimulus funding."

Meanwhile, cities and other local municipalities will have to deal with cuts in state aid, dropping property values and diminished budget options, he added.

Other sectors of the \$2.9 trillion municipal market will also see ratings pressure, including nonprofit hospitals, private universities, and airports, according to the rating agency.

For buy-and-hold investors, recent developments are of limited importance, said Fred Yosca, manager of underwriting and trading at BNY Mellon Capital Markets.

"In terms of whether you're going to get 100 cents back on your dollar in maturity, I think as long as you're buying reasonably good credits, which is pretty easy to do in the municipal forum, you're fine," said Yosca.

"If you're a total-return investor, I guess you've got to be more sensitive to credit considerations because you might want to sell at a time it's not opportune to sell from a credit standpoint," he said.

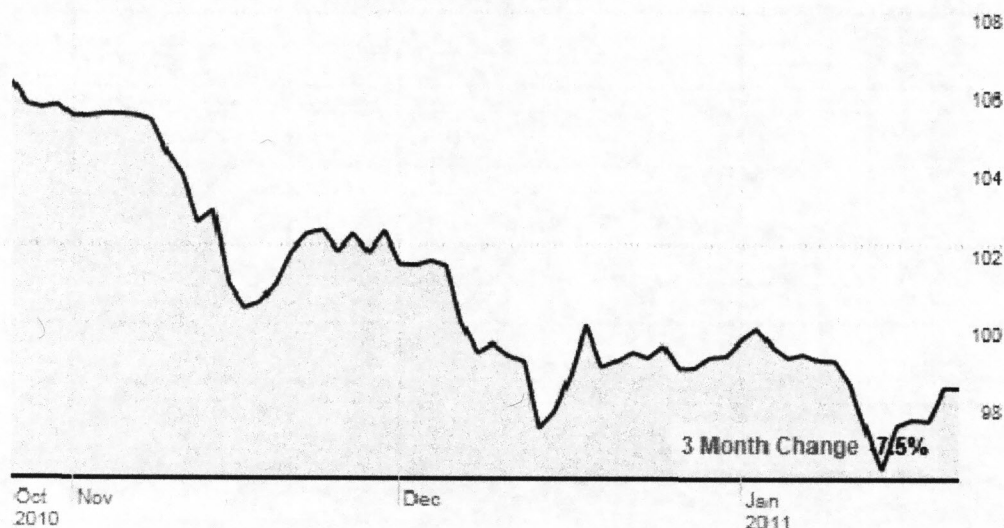
Richard Ciccarone, managing director and chief research officer at McDonnell Investment Management, said he expects credit pressure to continue for "at least two, and possibly four" more years. But he said the recession has caused some issuers to improve management and discard waste, which bodes well for performance.

"The majority of credits, I would expect, will see a stabilization of credit quality. The minority would see things getting weaker," he said.

(Additional reporting by Edith Honan in New York; Editing by Padraic Cassidy)

S&P warns of more muni bond downgrades

iShares S&P National Municipal Bond Fund



Earlier this month, shares of the popular fund hit their lowest level since August 2009. Click the chart for more bond market data. By Hibah Yousuf, staff reporter January 24, 2011: 2:36 PM ET

NEW YORK (CNNMoney) -- Just as fears about a heavy sell off in the municipal bond market seemed to be easing, Standard & Poor's issued a warning that this year could bring a potential surge in the number of downgrades of bonds issued by state and local governments.

States including California, Illinois and New York are strapped for cash and dealing with deep budget deficits, **sparking fears** that states and cities could fall short in payment obligations to muni bond holders.

During the first three quarters of 2010, S&P cut ratings on 343 state and local government-issued bonds. That's 26% higher than all of 2009. And in all of 2008, S&P downgraded ratings of just 37 bonds issued by state and local governments.

"We believe that continued revenue decreases for state and local government may increase fiscal strain on budgets, and monitoring of liquidity will be especially important in 2011," said Standard & Poor's credit analyst Gabriel Petek.

Muni bond investors have been fleeing the market in droves since November.

The sell-off caught additional fire after Wall Street analyst Meredith Whitney issued a muni bond warning during an appearance on "60 Minutes" last month.

She said that the market could see **50 to 100 municipal bond defaults** and restructurings this year, resulting in hundreds of billions of dollars in losses to investors.

Not everyone agrees with her doomsday scenario. S&P says it expects that state and local governments will largely be able to maintain medium to high investment-grade ratings this year.

While downgrades are likely, Petek said he doesn't think the budget problems will result in a "notable increase" in defaults.

That's probably because defaults are not very common. State and local governments are obligated by law to balance their budgets between each fiscal cycle. In fact, there have been just 54 defaults between 1970 and 2009 out of 18,000 muni issues, according to Moody's Investors Service.

Just last Friday, Fitch Ratings raised its credit outlook on Illinois, citing "steps the state has taken to address its budget imbalance through a sizeable increase in both corporate and personal income taxes."

"Governments are under financial stress and undoubtedly have long-term liability problems related to pensions and health care costs, but they have been making substantive cuts in their budgets, and will continue to cut more meat to balance their budgets," said Hugh McGuirk, head of municipal investments at T. Rowe Price.

He added that investors have to remember that municipal bonds are higher quality than other fixed income securities, and even in the current environment, continue to be so.

How to invest in municipal bonds

"All the stories about the demise of the bond market are grossly exaggerated," McGuirk said. "We'll see more downgrades and more cities reach breaking points, but that doesn't mean the broad municipal bond market will go to hell in a hand basket. There's still a lot of good credit out there."

Even in the event of a default, bond investors typically recover most of their money. ■